

POINT OF VIEW

Economy Forces Reds To Seek West's Credit

By CHARLES BARTLETT
Star Special Writer

The American struggle to discourage its allies from giving precedent of Adolph Hitler, long-term credits to the Soviet Union is inspired by an aware-who financed Germany's expansion in the 1930s with a mass of the formidable economic squeeze that now confronts massive range of credits, has been cited to the British.

The extent of the squeeze, painstakingly pieced together by economists of the Central Intelligence Agency, will be a pivotal factor in world affairs in 1964.

The economic facts of life have come home to roost upon the Soviet Union and left Premier Khrushchev with no easy answers—unless he can obtain generous credits from the West.

The most surprising intelligence discovery is the limited size of the Soviet gold supply, about which Western economists only have been able to speculate in the past.

CIA specialists now say with assurance that the present Soviet gold holding amounts to slightly less than \$2 billion. The total is declining because gold production is only about \$175 million a year against estimated sales of more than \$200 million in 1962 and \$450 million in 1963.

The Siberian gold mines are inaccessible and uneconomic. They were developed by slave labor, which is no longer available, and the Soviets spend an estimated \$70 to produce an ounce of gold that sells for \$35 on the world market. They have recently approached the Canadians to learn modern mining techniques.

The dwindling gold supply is only one of the pincers in the economic squeeze. The Soviet Union's rate of growth has steadily declined since 1958 and the per capita agricultural product is less than it was in 1956.

Population Growing

The population is growing at a rate of 1.5 per cent a year. Military and foreign aid costs have risen steadily. Capital funds cannot be derived from a further tightening of civilian consumption, about half of which is devoted now to bread and grain products.

The circumstances are not desperate in terms of the internal stability of the regime but they are austere in terms of development objectives. They combine to give a hollow ring to Mr. Khrushchev's

repeated boasts that his Communist economy will challenge and soon overtake the capitalist system.

The tight allocation of resources will make it extremely difficult for Mr. Khrushchev to meet the need he recently proclaimed for a chemical industry to manufacture fertilizers to improve his agriculture. He must obtain these plants from Western suppliers and operate them with a work force that is already short of skilled personnel.

The difficulties are enhanced by the fact that the Soviets have yet to demonstrate an aptitude for the precision and subtleties of light industry.

Credit from the West would be the readiest answer to Mr. Khrushchev's problem of accelerating his Nation's rate of growth. He has managed since 1960 to borrow about \$300 million a year in five-year credits from the Western European countries. But the repayments are falling due and he now is obliged to repay approximately as much as he is able to borrow.

Mr. Khrushchev has met this crisis with an effort to secure longer credit terms from the West. He wants 15-year loans to finance his chemical industry and the British are anxious to do business with him.

Competition Feared

United States officials are deeply concerned that if the British set a precedent for these long-term loans, they will provoke a competition throughout Europe to make sales to the Soviets with generous terms.

If the competition becomes keen, the Soviets could accomplish with capitalist credit the speedy industrialization that would give validity to their claims for communism. The

American officials do not accept the old thesis of "the fat Russian," a Communist rendered content by prosperity and unwilling to press for world conquest. They argue that a Russian who became suddenly fat could also become arrogant and aggressive.

It would be equally unpromising, in the American view, to have the Soviet economy deteriorate to the point of producing a desperate Russian, who could be dangerously willing to risk everything.

American policy-makers see the best promise of peace in a Russia that is progressing slowly under constant economic pressure. The pressure will force the Russian leaders to concentrate their resources on their domestic needs and avoid foreign adventures. The slow progress will maintain their internal stability and their disinclination to be rash.

The intelligence research has shown that the present progress within the Soviet Union is matched by very substantial pressures. The diplomatic effort to avert the shift of allied policy that would lighten these pressures will be a significant aspect of the coming year.

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A-6

TUESDAY, DECEMBER 31, 1963

There's Hope Ahead

The year now ending has not been one to excite excessive pride or unreasonable hope.

At home, we have witnessed some events so shocking that they had best not be reviewed. There has also been much criticism, much complaint, much pulling and hauling. But the worst fears of the doomsday prophets, as stated a year ago, have not come to pass. As a matter of fact, one can say that there has been progress in the United States. And that we here at home can look forward hopefully to the coming year.

In some degree, the same holds true for the larger scene. There have been shameful incidents around the world. Nothing comparable to the assassination of John F. Kennedy, yet much that has been a reproach to mankind. But on the whole, at least from the West's point of view, the balance now being struck is far from unfavorable. There has been no war of major consequence. The nuclear missiles remain leashed. The Western Alliance, if shaken, has not come apart. The Common Market staggers on. And the lives and condition of men on this side of the Iron Curtain, with some exceptions, notably Cuba, are a little better than before.

What about the other side of the Curtain? There, too, the closing year has been tolerable. But there have also been portents in Communist-land which indicate that all is not well. Certainly they suggest that Mr. Khrushchev will not necessarily bury us. So, as we look around the world, there is additional reason for a certain hopefulness.

All of this has a relationship, hardly coincidental, to the news reports of recent days from such diverse places as Johnson City, Moscow and Washington.

The report from Johnson City, where President Lyndon Johnson met with Chancellor Ludwig Erhard, was couched in the lofty but ambiguous terms of a formal communique, rein-

forced by some informal comments from around the barbecue pit. In combination, they spoke cheerfully of mutual admiration, agreement on objectives which serve the cause of peace, a continuing resolve to defend freedom and a suggestion from the Chancellor that "we are open-minded—we want to remain flexible."

This is a flexible statement in its own right—especially when read against the reaffirmation of a "shared commitment to the peaceful reunification of the German people in freedom, by self-determination." We are far from sure as to the precise meaning of this. It seems slightly less unqualified than earlier commitments to reunification through free elections. And Mr. Erhard said that his government was prepared to examine "all paths" that might lead to the desired goal—a statement which seems to have a bit of a new ring to it. But at this time it probably would be just as well not to read the fine print too closely. The West German attitude in relation to Russia may or may not have softened under Chancellor Erhard. We feel confident, however, that Lyndon Johnson, while remaining faithful to commitments, will not lose sight of the fact that the United States must not let itself be fettered in discussions with the Russians.

A second report comes from Moscow. According to a statement to Henry Shapiro, of the UPI—a report published by the Soviet news agency Tass—Mr. Khrushchev is most desirous of improving relations with the United States in 1964. He hopes to see "the development of relations of peaceful co-operation, good neighborliness and friendship between the peoples of the United States and the Soviet Union . . ." He adds that if the efforts of our two countries and of other states are united in the interests of peace, "then the coming year of 1964 can undoubtedly become a year of decisive change for the better in the en-

Continued

tire international situation."

Mr. Khrushchev, of course, has said this, or something pretty much like it, on other occasions. And then he journeyed to the United Nations to pound on the table with his shoe. This time, however, there may be a little more reason to take his words at somewhat less than the normal discount.

This brings us around to a third report—written by Charles Bartlett for The Sunday Star.

The gist of his article was that Mr. Khrushchev, economically speaking, is in pain. The promissory notes which he has been giving the Russian people are coming due, and he is finding it hard to meet them. Russian gold production, according to a CIA report cited by Mr. Bartlett, is down. The needs of a growing population, plus military, space and similar costs, impose an increasingly severe strain on the Russian economy. It is not thought that this is sufficient to upset the Soviet regime. But Mr. Khrushchev wants help—in the form of long-term credits from the West. The debate within our Government is whether to lend a hand or to try to put him through the wringer by refusing long-term credits and endeavoring to persuade our allies to refuse them.

Our feeling on this is that, logically, there will be mounting pressure in the long run for an improvement in relations between the United States and Russia. And we think this is desirable. For to say the very least, if the Khrushchev government were to be toppled through a denial of credits, or perhaps by some other means, the chances are good that a much tougher Stalinist crew would take over in Moscow.

Undeniably, Mr. Khrushchev presents a threat. But the devil we don't know could turn out to be much worse. So, with the knowledge available to us, we favor lending a hand. We say this in the belief that there really is hope ahead.

WASHINGTON FOCUS:

LBJ Message to Echo JFK

By CHARLES BARTLETT

PRESIDENT JOHNSON'S State of the Union Message is expected to be similar in content to the one John F. Kennedy was planning to give. It will contain few new proposals, in order to expedite the session. Housing and urban renewal proposals are necessary, because the present programs expire this year. The "war on poverty" was prepared while Kennedy was alive and it fitted perfectly into Johnson's need to seek liberal sympathies.



BARTLETT

HOWEVER, Johnson will continue to court the conservatives with his emphasis on government economy and on securing full value from the tax dollar. He was extremely pleased by the public reaction to his concern with the budget. Officials of the Budget Bureau have had a greater say in the decisions on the program for the coming year than they ever did under Kennedy. The cut-back in limousines for top officials was a prime topic of Washington conversation over the holidays.

THE PRESIDENT'S message is being prepared in the same fashion as in previous years. Departmental recommendations were funneled through Theodore Sorensen, who shaped them into speech form after the necessary decisions were made by Johnson. The Council of Economic Advisers has completed early drafts of the President's Economic Report, which goes to Congress later in the month. The final content will provide some interesting insights into the new President's economic philosophy.

MR. JOHNSON loves details but he is said to be learning slowly that his

job is so enormous that he must even avoid some details which interest him. Unlike Kennedy, who kept his evenings apart from his office life unless something big was up, Johnson works and talks with his staff until late at night. The small Johnson staff is working well with the Kennedy White House aides and most of them now seem inclined to stay on until after the election.

THE CIA's estimate of the Soviet Union's gross national product in 1962 is \$260 billion, some 47 per cent of the United States' GNP. The Soviets are believed to spend 17% of their GNP on defense (U.S.-9%); 38% on civilian consumption (U.S.-64%); 33% on capital investment (U.S.-18%); 8% on education (U.S.-5%); and 5% on government administration (U.S.-4%).

GOV. GEORGE ROMNEY is increasing his activity on the national scene but he is mainly interested in maintaining his hold on the Michigan delegates and is not trying to project his Presidential candidacy. He is said to be determined to run again for governor. Similarly, Richard Nixon, after taking a few soundings, appears to have shrunk from any effort to gather support. He is said to have given a commitment to his wife when they moved to New York that he would not become a candidate again.

SEN. BARRY GOLDWATER was frank in telling his friends before he announced his candidacy that he was motivated more by loyalty to his supporters than by enthusiasm for the long struggle ahead. He probably would have decided against the race if he had been left to his own choice, but the campaign had progressed so far that he had to go through with it. Goldwater has found national politics much less enjoyable since the opposition became meaner and more intense.

Red Squeeze In Economic Money Belt

By Tom Lambert

Of The Herald Tribune Staff

WASHINGTON.

Nikita S. Khrushchev had been wrong before and has been wrong since.

But rarely has he been wronger than on Jan. 29, 1959.

On that day, speaking at the Soviet Union's 21st Communist party congress, he announced an ambitious seven-year program which, he claimed, would make Russia one of the most productive nations in the world.

The plan, he predicted confidently, would turn the Soviet Union into a giant cornucopia spouting every kind of product—shoes, missiles, food, houses—for the nation.

So fruitful would be the results of the plan, he went on, that by 1970 the Soviet Union might no longer have to tax its citizens.

Under the plan, he continued, Soviet production would expand more than 8 per cent annually, to give Russia "a decisive edge" over the United States in all kinds of output by 1970.

TROUBLES GROW

But even as he spoke, Premier Khrushchev was in economic difficulties. Since Jan. 29, 1959, they have been multiplying steadily. And the statistics charts that he had predicted would show only increases are now blighted with slumps, production fall-offs and downward curves drawn in red ink.

The Soviet economic squeeze results from varied causes: High spending on weapons, harvest losses, official mismanagement and wastage, increasing public demand, an expanding population, much devotion to Marxist-Leninist theory and dogma.

Mr. Khrushchev's economic distress, experts here say, is one of the prime reasons for his current "peace" campaign. He needs a period of quiet abroad, they say, to try to shore up his country's notably faltering economy.

Additionally, the experts reckon, Mr. Khrushchev hopes his peace calls will persuade Western firms and bankers that he is a good credit risk and qualified for loans to help build up his country.

The Soviet leader, these experts believe, can patch up his tattered economy without Western help, but only slowly and painfully. With help, he could do the job much more quickly.

According to intelligence analysts here, Mr. Khrushchev's economic woes are formidable.

Russian farm production, for example, has plummeted so sharply that the Soviet Union, once the world's fourth largest grain exporter, may this year be the world's largest importer. And buying food will reduce Mr. Khrushchev's cash reserves.

There is some speculation here that Mr. Khrushchev might have to dip into Russia's state grain reserves to feed his people. He kicked ex-Premier George Malenkov out of office and into oblivion for, among other things, tampering with the state grain reserves.

A CONTRAST

Although Mr. Khrushchev predicted an 8 per cent-plus yearly production increase rate under the seven-year plan, the Soviet growth rate the last two years has skidded to less than 3 per cent.

Meanwhile, the American production increase rate has climbed to about 5 per cent. The Soviet Premier's boast he could overtake this country by 1970 is shattered. Experts

here say the Russians cannot catch up to this country's production in the current century.

Mr. Khrushchev probably has had to dip into his nation's gold reserves—he now is believed to be selling more gold annually than he mines, and his reserves are thought to have slumped from some \$3 billion to less than \$2 billion—and thereby reduced the amount of cash he has to spend at home or abroad.

And instead of abolishing taxes for his people, he in effect is taking more out of their pockets through increased prices for some food and goods, thus reducing their real wages.

Additionally, he may have to go back even further on his promises to improve their lives. He reportedly is considering a 17 per cent cutback in his program to build more homes for his people, for whom housing still is a major problem.

Elaborating, experts here name these causes for his current economic troubles:

1. The Communist system, which has failed in Russia and every other Red state to provide party-promised prosperity.

2. Expenditures of increasingly larger sums on weapons and space projects, none of which contributes significantly or fundamentally to Russia's economic productive growth or feeds, clothes or houses the Russian people.

3. The cumulative effect of a constant short-change policy for agriculture and light industry in favor of heavy industry, in which disproportionate sums were allocated for steel and not enough for farm machinery and fertilizer.

4. The huge financial losses involved in Mr. Khrushchev's virgin lands farm program, which has failed to produce the yields he expected.

WANTED: FUNDS

The combination of these and other factors has faced Mr. Khrushchev with a pressing need for capital funds. And his possible sources for those funds are limited.

It is unlikely that he can reduce spending sufficiently at home for food, wages, education and other civilian purposes to obtain sizable amounts for capital investments in the Russian economy.

It is highly doubtful he can obtain much economic help through co-ordinated planning with Russia's East European satellites or much capital funds from them. With the possible exception of Romania, the satellites have economic troubles of their own.

He may be able to trim some of his foreign aid programs and spending.

He might be able to obtain some money for capital investment through token cutbacks in his military programs, but there is no indication yet he is planning large-scale reductions in defense spending.

One of his principal hopes for economic aid at the moment is Western credits.

When he announced recently a \$46 billion expansion of Russia's chemical industry to help his farm program, he hinted broadly he wanted Western loans to build some of the factories involved.

And he thereby sparked a dispute between the U.S. and some of its allies on a credit policy for Russia.

The U.S. wanted to limit credits to the Soviet Union to five years, instead of the 15 years some Russian officials were soliciting. Some sources here view long-term credits, in effect, as aid projects. But Britain said no to the American five-year credit proposal.

Some intelligence experts here now are worried that Britain's refusal to accept the five-year limit may trigger a race among some European and perhaps some Japanese business men to grant long-term credits to the Soviet Union.

Those experts do not want to hobble or stifle Russia's economic growth, contending that such a policy would only make the Soviet Union more hostile. But they object to Western financing of Soviet economic expansion or too much Western credit help for Mr. Khrushchev.

They feel that some continued but not overwhelming economic pressure on the Soviet leader might keep him so busy at home that he will not have the time or resources for mischief or trouble-making abroad.

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WASHINGTON, JAN. 7 (UPI) -- THE CENTRAL INTELLIGENCE AGENCY (CIA) DISCLOSED TODAY THAT THE SOVIET UNION IS IN BAD ECONOMIC CONDITION.

A CIA SPOKESMAN SAID INTELLIGENCE ECONOMISTS HAVE PIECED TOGETHER A BLACK FISCAL PICTURE FOR RUSSIA AFTER MANY MONTHS OF PAINSTAKING SCREENING OF BITS OF INFORMATION.

THE MOST STARTLING FINDING WAS THE LOW GOLD RESERVE OF THE SOVIET UNION WHICH U.S. ECONOMIC EXPERTS HAVE ONLY BEEN ABLE TO GUESS.

THE CIA STUDY SHOWS SOVIET GOLD HOLDINGS AT SLIGHTLY LESS THAN \$2 BILLION AND DECLINING BECAUSE GOLD PRODUCTION IS ONLY ABOUT \$175 MILLION ANNUALLY AGAINST ESTIMATED SALES OF \$450 MILLION LAST YEAR.

THE CIA REPORT SAID SIBERIAN GOLD MINES WERE INACCESSIBLE AND UNECONOMIC, COSTING THE KREMLIN \$70 TO MINE ONE OUNCE OF GOLD SELLING FOR ONLY \$35.

BUT THE BAD GOLD SITUATION, WHICH HAS FORCED RUSSIANS TO SEEK CANADIAN MINING TECHNIQUES, IS ONLY PART OF THE RUSSIAN ECONOMIC SQUEEZE, THE CIA REPORTS.

INTELLIGENCE ECONOMISTS SAID THE SOVIET UNION 'S RATE OF GROWTH HAS DECLINED STEADILY SINCE 1958 AND THE PER CAPITA AGRICULTURAL PRODUCT IS BELOW 1956 LEVELS.

WHILE THE RUSSIAN ECONOMIC PLIGHT WILL NOT SERIOUSLY AFFECT THE RED GOVERNMENT'S INTERNAL OPERATIONS, CIA EXPERTS THINK THEIR ECONOMIC SQUEEZE WILL HURT THEIR WORLD POSITION NEXT YEAR.

THE REPORT ALSO SUPPORTS U.S. PLANS TO URGE ALLIES NOT TO GIVE RUSSIA LONG-TERM CREDITS IN TRADE TRANSACTIONS.

THE CIA BELIEVES THAT RUSSIA'S ECONOMIC GROWTH IN THE PAST TWO YEARS WAS LESS THAN 2.5 PER CENT ANNUALLY. BUT CIA OFFICIALS SAID THE SOVIET UNION'S ECONOMIC PICTURE SHOULD IMPROVE DURING THE NEXT YEAR OR TWO.

THE SOVIET GROWTH RATES WILL NOT RETURN TO THOSE OF THE POSTWAR PERIOD, HOWEVER. CIA OFFICIALS NOTED THAT EVERY MAJOR NON-COMMUNIST INDUSTRIAL NATION EXCEEDED RUSSIA DURING THE PAST TWO YEARS IN GROWTH RATES.

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WASHINGTON, Jan. 8 (AP) -- CENTRAL INTELLIGENCE AGENCY ANALYSTS HAVE CONCLUDED THAT RUSSIA'S ECONOMIC GROWTH IS RUNNING FAR BEHIND AMERICA'S AND HER GOLD RESERVES HAVE FALLEN BELOW \$2 BILLION.

THESE CONCLUSIONS FROM EXTENSIVE CIA STUDY OF THE SOVIET ECONOMIC SITUATION WERE MADE AVAILABLE TO NEWSMEN TODAY.

AND THE RUSSIAN CONSUMER, ACCORDING TO THE U.S. INTELLIGENCE SPECIALISTS, IS STILL GETTING THE SHORT END OF THINGS IN THE SOVIET ECONOMY.

RUSSIA'S ECONOMIC GROWTH IN THE LAST TWO YEARS WAS RATED AT LESS THAN 2.5 PER CENT ANNUALLY, COMPARED WITH THE RECENT U.S. GROWTH RATE OF 5 PER CENT.

THE SOVIET GOLD RESERVE ESTIMATE, LOWER THAN SOME ESTIMATES PUBLISHED ELSEWHERE, WAS TAKEN BY THE INTELLIGENCE ANALYSTS AS A SIGN THAT RUSSIA WILL NEED CONSIDERABLE CREDIT FROM NON-COMMUNIST COUNTRIES IF IT IS TO FULFILL PLANS FOR FUTURE EXPANSION OF CHEMICAL AND FERTILIZER INDUSTRIES.

RUSSIA'S GROWTH RATE IS EXPECTED TO IMPROVE SOMEWHAT, THOUGH WITHOUT HITTING THE ANNUAL CLIMB OF UP TO 10 PER CENT THAT FEATURES RUSSIAN EXPANSION IN THE EARLY POST WAR PERIOD. THE SOVIETS COULD REACH A GROWTH RATE AGAIN OF 5 PER CENT, SIMILAR TO THE U.S. RATE, IT IS BELIEVED.

BUT FURTHER DISAPPOINTMENTS APPEAR IN STORE FOR RUSSIAN CONSUMERS.

U.S. STUDIES OF PREMIER KHRUSHCHEV'S RECENT BUDGET SPEECHMAKING AND THE ECONOMIC SESSIONS OF THE COMMUNIST PARTY AND SUPREME SOVIET IN MOSCOW SHOW A MARKED SCALING DOWN OF PAST GOALS.

SHOE PRODUCTION GOALS WERE REPORTED DOWN AT LEAST 21 PER CENT, MEAT DOWN PERHAPS 20 PER CENT, MILK DOWN 20 PER CENT, AND HOUSING 17 PER CENT. AT THE SAME TIME, SOVIET MINIMUM WAGES WERE HELD AT THE EXISTING LEVEL INSTEAD OF BEING INCREASED AS PREVIOUSLY SCHEDULED.

IT WAS UNDERSTOOD THAT THE CIA ANALYSIS WAS MADE PUBLIC AT THE REQUEST OF PRESIDENT JOHNSON WHO BELIEVED ITS DISSEMINATION WOULD PROVE OF VALUE TO U.S. POLICIES.

THE CIA CONCLUSIONS BUTTRESS WASHINGTON'S ARGUMENT THAT ITS WESTERN ALLIES SHOULD NOT EXTEND LONG TERM CREDIT IN LARGE AMOUNTS TO THE SOVIETS.

PUBLICATION OF THE CIA ANALYSIS CAN ALSO BOOST THE U.S. PORTRAYAL OF THE VIRTUES OF FREE ENTERPRISE AS COMPARED WITH THE COMMUNIST SYSTEM. THE RELATIVE MERITS OF THE COMMUNIST VS. THE NON-COMMUNIST SYSTEMS ARE CLOSELY EYED BY THE LEADERS OF UNDERDEVELOPED COUNTRIES.

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SHARP SLOWDOWN IN SOVIET GROWTH REPORTED BY C.I.A.

Agency Puts Economic Rise
at 2.5 Per Cent Yearly,
Below the U.S. Level

GOLD RESERVE FALLING

Farming Setback and Shift
in Investment Believed
Responsible for Lag

By EDWIN L. DALE Jr.

Special to The New York Times

WASHINGTON, Jan. 7—An exhaustive analysis by the Central Intelligence Agency has concluded that the Soviet Union's economic growth in the last two years has been less than 2.5 per cent annually, well under the rate of the United States.

In addition, the C.I.A. has concluded that Soviet gold reserves have fallen to less than \$2 billion, far below estimates made elsewhere. These conclusions have been made public by the agency.

The C.I.A. put the value of the Soviet gross national product, or total output of goods and services, last year at about \$260 billion, slightly less than half that of the United States. The United States is widening the gap each year at recent growth rates, according to the report, and this widening is expected to continue.

The Central Intelligence Agency has virtually exclusive responsibility in the United States Government for evaluating the Soviet economy. Several hundred economists and other analysts work full time on the question. They primarily use published sources, which are now numerous, but the information is supplemented by some data obtained clandestinely.

Growth Slowed Abruptly

Like many other analysts, the C.I.A. experts concluded that Soviet economic growth in the postwar period was rapid until the last few years. While the rate varied from year to year, it was usually between 6 and 10 per cent, well above the United States average of 2.5 to 3.5 per cent.

In the last three years, partly as a result of a surge in 1961 following a recession, the United States growth rate has averaged about 5 per cent. The official estimate for the next year is also 5 per cent.

For the future, the C.I.A. analysts expect that the Soviet Union will be able to improve upon the poor performance of 1962 and 1963.

However, they do not believe that the Russians will be able to return to the growth rates of the earlier postwar period. A growth in the range of 4 to 5 per cent, about the same as that of the United States, is considered a reasonable prospect.

Since these are percentages, and the United States has a much higher base, such a result would mean that the gap between the two economies would continue to widen in absolute terms.

In addition to the slowdown in the Soviet growth rate, the C.I.A. has also detected a major reduction in the rate of growth in investment—the base for future growth. In 1962 and 1963, each, total investment rose only 4 to 5 per cent, far less than in the earlier postwar period.

The C.I.A. analysts developed a figure for the Soviet gross national product by valuing in dollar terms the output of all the sectors of the Soviet economy. The Soviet Union does not use the concept of gross national product in its statistics.

Soviet Conclusions Differ

Soviet figures on industrial production alone would indicate much less of a slowdown in over-all growth than the C.I.A.'s conclusions. However, the C.I.A. is confident that its analysis is correct, based on various techniques of evaluating Soviet official statistics and other information.

There is no doubt in the mind of the analysts that the Soviet rate of growth has slowed greatly in the last two years, although they do not say that their figures are correct to the last dollar.

The analysts stress that their picture is not one of an economy in "collapse" or suffering from such ills as unemployment. But neither is the Soviet economy any longer a world pacemaker in expansion and growth. Every major non-Communist industrial nation has exceeded the Soviet growth rate in the last two years.

Three major reasons are given for the slowdown in economic growth.

The first is a shift in the so-called "mix" of the Soviet economy, that is, investment away from the heavy industries, raw materials and power supply toward the more sophisticated elements of modern industry.

"It was easier to build more and more steel mills and cement plants and hydroelectric dams than it is to build chemical plants and diversified consumer goods," one analyst said.

Arms and Space Costs Cited

The second reason has been a very large increase in military and space spending since about 1957 or 1958. While this counts as a part of the gross national product, it is "anti-growth" in that it takes resources and personnel from productive investment.

This has been particularly true since the shift of the military effort toward modern weapons such as missiles.

The third reason is the serious decline in agricultural output in the last two years. The C.I.A. now calculates that the total Soviet food production this year will be only about 3 per cent above 1956 and, on a per capita basis, will actually be 7 or 8 per cent less than in 1956. Wheat output last year is put at a minimum of 10 million tons below 1962.

Part of the problem results from bad weather. In the peak Soviet agricultural year, 1961, food output was 20 per cent above 1956.

The analysts are careful not to attribute the serious worsening of the Soviet position to the nature of the state-controlled Soviet economic system as such, though they say this could be a factor.

The C.I.A. analysts foresee no decline in the Soviet resources devoted to modern weapons, though there might be small cutbacks in conventional forces. Nor is there expected to be any easing of the investment problem posed by the move away from the simpler basic industries.

Thus the overstrain on the economy, in the sense of a short-

Continued

age of human and material resources for investment, is expected to continue, even with some improvement in farm output. The best course for Moscow, it is believed, would be to find extra resources, in the form of plants and equipment, in the West.

However, given the low level of Soviet gold reserves, this could be done only if the Western nations were willing to sell on credit, preferably, from the Soviet viewpoint, credit of more than five-year terms.

This reasoning is a factor behind the strong United States drive in the North Atlantic Treaty Organization to get its ambitious chemical expansion program. He asserted that credit terms extended by Western European countries to the Soviet Union.

Soviet gold production is put at about \$150 million annually. While acknowledging that Moscow's sales of gold in the West have been running at more than \$200 million a year, and last year were a little more than \$400 million.

Thus, gold sales cannot finance a big extra volume of Soviet imports of capital equipment from the West. Credit terms would be essential, the C.I.A. believes.

The Russians have approached suppliers in Britain with specific proposals for purchases on terms running well beyond five years. They are not believed to have been successful, but the British Government refuses to make a binding decision barring such terms.

Gain Asserted by Soviet By HARRY SCHWARTZ

The chief Soviet economic planner, Pyotr F. Lomako, asserted last month that his country was continuing to gain on the United States in industrial production.

Mr. Lomako asserted that

Soviet industrial production in 1963 was 65 per cent of that of the United States a gain of 2 percentage points over the 63 per cent ratio that the Soviet Union reported for 1962.

While the Central Intelligence Agency estimates that the annual Soviet economic growth during the last two years was less than 2.5 per cent, the Soviet Union asserts that in 1962 alone its national income—a concept similar to gross national product—rose 6 per cent.

Last month Premier Khrushchev denounced speculation in the West that the Soviet Union would need credits to realize its ambitious chemical expansion program. He asserted that the Soviet Union would be able, if necessary, to achieve the chemical production goals from its own resources.

While acknowledging that Soviet grain production had fallen last year, Mr. Khrushchev spoke glowingly of what he asserted were continued high rates of industrial growth. He said that Soviet cotton production last year was the highest in the country's history.

The Premier gave for the first absolute figures on the growth of production of key commodities last year; these data are compared as follows with the corresponding output figures for 1961 and 1962: (All data are in millions of metric tons except for electricity, which is given in billions of kilowatt-hours, and shoes, stated in millions of pairs).

	1961	1962	1963
Steel	70.8	76.3	80.0
Oil	166	186	205.5
Electricity	328	369	411.6
Cement	50.9	57.3	60.3
Shoes	443	456	461
Fertilizers	15.3	17.3	20

Many Western observers have noted that in the last two years the Soviet economy was

showing signs of slowing some-

what from the rapid growth rate of the nineteen fifties. But the estimate of the slowdown made public by the C.I.A. yesterday appears to be far more radical than any other yet published in the West by a responsible source.

Specialists on the Soviet economy have been aware for many years that comparisons of Soviet and American economic growth are full of pitfalls, and that even analysts who accept the same basic data may come to rather different conclusions.

One difficulty arises from the question of what to measure. The Soviet analysts include in their estimates of Soviet production only the output of material goods—steel, grain, shoes, etc.—and leave out the production of services—haircuts, medical services, the work of teachers, etc.

American analysts include both material production and services in their analyses. The two different definitions tend to produce differences in final evaluation.

A second difficulty arises from the lack of an unambiguous way of adding up production of different goods and services. Should output be valued at Soviet prices or American prices? Experiments have been made in the United States in which the same group of production outputs have been valued in both Soviet and American prices. Significantly different results could be obtained, depending upon which price system was employed.

CHICAGO DAILY NEWS

AN INDEPENDENT NEWSPAPER FOUNDED JANUARY 1, 1874



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Pulitzer gold medals for "most disinterested and meritorious public service" were received in 1950, 1957 and 1963.

The 1963 award was the 17th Pulitzer Prize received by The Daily News or members of its staff since 1925.

EDITORIAL PAGE STAFF: KENNETH MCARDLE, ASSOCIATE EDITOR

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New Light on Russian Economy

THE CENTRAL Intelligence Agency's study of Soviet economic growth offers convincing evidence that the United States is pulling ahead of Russia and will continue to widen its lead in the future.

The Russians are in trouble because of their increase in military and space spending, a decline in agricultural output, and a shift of investment away from heavy industry, power supply and raw materials.

These factors have pushed their growth rate down to less than 2.5 per cent annually during the last two years, compared to about 5 per cent in the United States.

Exactly five years ago, Premier Khrushchev opened a campaign for the economic conquest of the West and predicted the United States would be "outstripped" by 1970. Reaction in the United States was gloomy. A consultant to then President Eisenhower said the Russians might be "superior to us in every area" by 1963.

CIA economic analysts do not believe the Russians will be able to climb back to their earlier postwar growth range of between 6 and 10 per cent. They expect a leveling off at about 5 per cent, roughly equal to that of the United States. But this nation has a much higher economic base, and so our net gain will still outpace that of Russia.

It must be stressed (and the CIA itself has provided such emphasis) that the Soviet economy is not falling apart, and that its slump is not primarily due to the nature of its state-controlled economic system

(although this may be a factor).

It is clear, however, that the Russians are beset by what amounts to a recession, and have relinquished their role as world-wide pacesetter in economic growth.

At the very least, the CIA report makes Premier Khrushchev's "We will bury you" boast ring even hollower than ever.

INTERPRETIVE REPORT

CIA Trespass Feared at State

By **BERNARD GWERTZMAN**
Star Staff Writer

There is unhappiness in the State Department over a decision by the White House permitting the Central Intelligence Agency to publicize a recent analysis of the Soviet economy.

Some department officials fear that the CIA is infringing on their role as the shaper of American foreign policy. They say the CIA should stick to intelligence gathering.

Agency's Viewpoint

The CIA in this case believes it is only performing a necessary function in informing the world about the sorry state of Russia's economy, and by supporting the administration's policy against long-range credits which might bail the Kremlin out.

No State Department official would comment publicly on this matter, but it is known that the CIA, with President Johnson's approval, has been providing journalists with up-to-date briefings on the Soviet economy.

To give these briefings an authoritative air, the usually hush-hush CIA has allowed its name to be used as the source of the stories.

These briefings have stressed the declining rate of Russia's growth and the relatively small total of Russia's gold holdings.

The analysis has called for an embargo on long-term credits to the Soviet Union since such credits would allow the Kremlin to accelerate its economy at minimal cost.

State Department officials agree with these estimates—which clash radically with official Soviet figures—and even assert that department intelligence had arrived at the same conclusions before the CIA did.

But the officials argue that the CIA's function is not to release information to the press. And they are angry at the CIA's effort to take a leading role in persuading the public against granting long-term credits to Russia.

The question of credits, they say, is a sensitive one, involving extensive discussions with United States allies. The department is on record against credits of more than five years, but some officials are not convinced that all trade and all credits are necessarily bad.

Premier Wants Credit

Soviet Premier Khrushchev has shown an interest in purchasing fertilizer plants on credit to improve his nation's agriculture. Some top-ranking officials believe that a well fed Soviet population might in the long run be to this country's interest.

Its critics agree the CIA, with its large corps of professional economists, is well equipped to analyze Russia's economy. But they assert that such briefings involve the CIA in policy functions that properly belong to the State Department.

Released in December

It was learned that the CIA began releasing the substance of the analysis in late December after CIA Director John A. McCone received permission from President Johnson. The report appeared in an article by Charles Bartlett in the December 29 Star.

Mr. McCone was reported to believe that it was necessary for the American public to know the full extent of the sad state of the Russian economy—and how credits might boost the regiment at no gain to the West.

There had been reports immediately following Premier Khrushchev's December 9 speech that the Soviet Union would be emphasizing the consumer goods industry and might be seeking increased trade with the West. The CIA analysis, backed by the State Department's experts, sees Russia's priority of defense and industry unchanged, with consumer goods still lagging behind.

U.S. WILL CITE LAG IN SOVIET GROWTH TO DETER CREDITS

Will Tell Allies Export Aid Would Help Moscow in Economic Difficulties

By EDWIN L. DALE Jr.
Special to The New York Times

WASHINGTON, Jan. 8—The Johnson Administration will use new evidence of a sharp slowdown in Soviet economic growth as an argument to persuade West European countries not to extend large export credits to the Soviet Union.

The evidence has been supplied by the Central Intelligence Agency. The agency made available yesterday its conclusion that Soviet growth has dropped from annual rates of 6 to 10 per cent in the last decade to less than 2.5 per cent in 1962 and 1963.

One reason behind the decision of the agency to make its conclusions available for public knowledge, it is believed, was that it might be taken as reinforcing the United States case in the debate with allied countries over credit sales to the Soviet Union. Another reason was to tarnish an "image" of the Soviet Union, in underdeveloped countries particularly, as a nation that had found the secret of rapid economic growth.

Some Experts Disagree

The C.I.A. conclusions are at variance with those of most non-government specialists on the Soviet economy. It is not clear whether the agency will make its analytical techniques known to others in the field.

[The C.I.A.'s conclusions were generally challenged by university experts on the Soviet economy. Some of them estimated that there had been a decline in the growth rate but considered the extent reported by the C.I.A. "fantastic."]

ings public was a new departure for the intelligence agency. It is possible that in the future it will be somewhat less secretive about those aspects of its work that do not involve clandestine operations. One motive for this, if a policy change should be decided upon, is the relatively "bad press" the agency has received in recent years, centering mainly on operations in Cuba and South Vietnam.

However, regardless of future C.I.A. information policy, there was a clear United States Government policy interest in making public the agency's conclusions on the relatively poor Soviet economic performance, which sharply alter previous assessments.

In the case of credit sales to the Soviet Union of industrial plants and equipment by West European countries and Japan, the United States will stress that such sales are now more than ever virtually the only escape for the Soviet authorities from their economic difficulties.

Officials believe that Premier Khrushchev cannot significantly cut back the production of modern military equipment to find more resources for investment. Nor can he resort to the Stalinist policy of squeezing the consumer, still less the farmer.

Finally, the C.I.A. estimates of Soviet gold reserves and production rule out any large increase in Soviet imports of capital goods from the West financed by sales of gold.

The agency has concluded that Soviet gold reserves are now slightly under \$2 billion and that the country's annual production of gold is only \$150 million a year. Normal Soviet deficits in international transactions with the non-Communist world have required gold sales of at least \$200 million a year without allowing for any big increase in capital goods imports.

Thus it is contended, first, that only imports can solve the Soviet problem and, second, that the Russians cannot pay cash for the imports. Western credit sales, by this analysis, would offer Mr. Khrushchev an escape from his problem, particularly if credit terms were extended beyond the five years normally offered for capital goods.

Whether this United States stand will impress the allies remains to be seen. All the major allies but Britain have already expressed their willingness to limit credit terms to five years but not to limit the amount of credit extended.

her intention to press actively for more exports to the Soviet Union. In Britain, it is understood, Soviet purchasing agencies have already indicated that they would place large orders if credit terms could be extended beyond five years.

Some Experts Skeptical

By HARRY SCHWARTZ

Some specialists on the Soviet economy expressed surprise and, in some cases, skepticism yesterday at a Central Intelligence Agency estimate of the extent of a decline in Soviet economic growth in the last two years.

The specialists, professors at United States universities, agreed that Soviet economic growth had slowed in recent years, particularly in 1963, because of a serious drop in grain production. What many of them found difficult to understand was the C.I.A.'s conclusion that the growth of the Soviet gross national product in the last two years was less than 2.5 per cent annually.

The strongest reaction to the C.I.A. estimate was expressed by Prof. Nicholas Spulber of the City University of New York. "I just cannot believe it," he said. "It is impossible." The professor added that he would be ready to accept a figure as low as 4 per cent annually but was baffled by the agency's estimate of less than 2.5 per cent.

In a similar vein, Prof. Warren Eason of Syracuse University termed the estimate "awfully low."

"I would want to look at it long and hard," he said.

Estimate Not Ruled Out

Prof. Robert Campbell of Indiana University called the difference between the intelligence agency's estimate and earlier figures on Soviet economic growth "fantastic." However, he added that the decline was bigger than one would conclude by looking at the individual components of Soviet production.

Prof. Herbert Levine of Harvard University said he had been "very surprised" by the 2.5 per cent figure but he added: "I am not too skeptical. The C.I.A. has been doing good work in this field."

Prof. Abram Bergson, also of Harvard, said, "I am a little surprised, but I can't rule it out."

The basis for the general reaction of astonishment was that estimates of Soviet economic growth for earlier years, prepared by the C.I.A. and others, had suggested that an annual rate of 6 or 7 per cent was correct.

Many specialists found it hard to understand how the Soviet economy could plunge in a few years from a 6 to 7 per cent growth rate to one of less than 2.5 per cent.

Several indicated that they had believed the Soviet decline to be less precipitous than the estimate reached by the intelligence agency's analysts.

There was general agreement among the specialists that, regardless of whether the 2.5 figure for 1962 and 1963 was correct, it would be dangerous to suppose that the Soviet economy would grow at any such low rate in the future.

Professor Levine said that if the Soviet Union had good weather this year and the harvest improved, the country's rate of economic growth could rise to as much as 9 per cent.

On this point, Professor Bergson said that there was evidence that Soviet economic prospects are not nearly so good as was widely assumed a few years ago, but it would be unwise to project from the last two years.

All the economists expressed curiosity about the details of the Central Intelligence Agency's calculations. Several noted that the agency's estimates would not be authoritatively evaluated by independent scholars unless the basic data and procedures were made public.

There were indications that the C.I.A. had made available some of its basic material on nonmilitary industrial production in the Soviet Union.

Several of the economists agreed that the key variable in judging the estimate of the Central Intelligence Agency was the level of agricultural output assumed in making the calculations.

UPI - 163

(RUSSIA)

Washington - RUSSIA WILL HAVE TO BUY \$2 BILLION WORTH OF MACHINERY AND EQUIPMENT FROM THE WEST TO BUILD ITS MUCH HERALDED CHEMICAL-FERTILIZER INDUSTRY, THE U.S. CENTRAL INTELLIGENCE AGENCY SAID TODAY.

THE CIA SAID THE SOVIETS PROBABLY WOULD HAVE TO ASK FOR CREDIT. IT ADDED THAT THE PURCHASES WOULD STRAIN MOSCOW'S GOLD RESERVES.

AT AN UNPRECEDENTED NEWS CONFERENCE, OFFICIALS OF THE TRADITIONALLY-SILENT INTELLIGENCE AGENCY SAID THE SOVIET UNION HAS BEEN "LIVING ON BORROWED CAPITAL," IMPROVISING TEMPORARY SOLUTIONS TO ITS FARM PROBLEM AND "CHRONICALLY NEGLECTING" BALANCED DEVELOPMENT.

ASSOCIATED PRESS

JANUARY 9, 1964

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--U R G E N T--

CIA-RUSSIA

WASHINGTON--A CIA SPOKESMAN SAID TODAY RUSSIA IS IN SUCH DEEP ECONOMIC TROUBLE THAT PREMIER NIKITA KHRUSHCHEV MUST PARE OTHER PROGRAMS TO MEET HIS EXPANSION GOALS IF HE CANNOT GET LONG-TERM CREDIT FROM THE WEST.

THE PICTURE OF THE SOVIET ECONOMIC SITUATION, AS PUT TOGETHER BY CENTRAL INTELLIGENCE AGENCY ANALYSTS, WAS GIVEN TO REPORTERS AT WHAT WAS DESCRIBED AS THE FIRST GENERAL NEWS BRIEFING OF THIS KIND SINCE THE NORMALLY SECRET INTELLIGENCE UNIT WAS SET UP AFTER WORLD WAR II.

A CIA SPOKESMAN SAID THE BRIEFING WAS AN EXPERIMENT IN MAKING PUBLIC CIA MATERIAL FROM WHICH THE SECRECY LABEL COULD BE SAFELY STRIPPED, IN ORDER TO MAKE THE INFORMATION GENERALLY KNOWN. IT WAS UNDERSTOOD THAT PRESIDENT JOHNSON APPROVED THE ACTION.

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ASSOCIATED PRESS

JANUARY 9, 1964

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LONDON, EXPERTS IN LONDON'S FINANCIAL DISTRICT EXPRESS SOME SKEPTICISM TODAY ABOUT THE FIGURES ON SOVIET GOLD RESERVES RELEASED BY THE U. S. CENTRAL INTELLIGENCE AGENCY.

OPINION IN THE CITY WAS THAT IT SEEMED HIGHLY UNLIKELY THE CIA COULD HAVE OBTAINED ACCURATE FIGURES ON SUCH A CLOSELY GUARDED SOVIET SECRET.

A CIA SPOKESMAN SAID THAT SOVIET GOLD RESERVES HAS SLUMPED TO LESS THAN \$2 BILLION AND THAT THE SOVIETS DO NOT WANT TO REDUCE THIS "MINIMAL" RESERVE.

THE SOVIET UNION PUBLISHED FIGURES ON GOLD PRODUCTION IRREGULARLY BEFORE WORLD WAR II, BUT THEY WERE STATED IN PERCENTAGES AND THE BASE OF PRODUCTION WAS NOT GIVEN. AFTER 1939 NO FIGURES ON SOVIET GOLD PRODUCTION WERE PUBLISHED AT ALL.

FINANCIAL SOURCES SAID THE RUSSIANS THEMSELVES DO NOT APPEAR WORRIED ABOUT THEIR GOLD POSITION. THEY POINTED OUT THAT MOSCOW HAS PAID CASH IN RECENT BIG WHEAT DEALS EVEN WHERE CREDIT WAS AVAILABLE.

GOLD BUYERS ALSO APPEAR TO BELIEVE THAT THE RUSSIANS WILL CONTINUE PAYING IN GOLD, WHICH WILL DEPRESS WESTERN GOLD PRICES. SINCE THE START OF THE YEAR BUYING INTEREST ON THE LONDON GOLD MARKET HAS BEEN SLACK. THE CURRENT PRICE IS \$35.07 AN OUNCE, ABOUT 3/4 OF A CENT BELOW THE CLOSING PRICES IN 1963.

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UNITED PRESS
INTERNATIONAL

JANUARY 9, 1964

UPI-185

(CIA)

WASHINGTON--THE U.S. CENTRAL INTELLIGENCE AGENCY HASN'T THROWN OPEN ALL ITS DOORS, OFFICIALS SAID TODAY, DESPITE HOLDING A UNIQUE NEWS CONFERENCE.

ABOUT 20 NEWSMEN WHO WERE BRIEFED BY THE AGENCY ON SOVIET ECONOMY WERE TOLD THAT THE "ON THE RECORD" CONFERENCE WAS HELD FOR TWO REASONS.

THE FIRST WAS THE IMPORTANCE OF THE BRIEFING DATA TO PUBLIC POLICY. THE SECOND WAS THAT THOUGH SOME OF THE DATA STEMMED FROM SECRET INTELLIGENCE, MOST OF IT WAS SIMPLY THE ANALYSIS AND OPINIONS OF ECONOMIC SCHOLARS WHO HAVE BEEN STUDYING THE SOVIET ECONOMY FOR MANY YEARS.

THE CONFERENCE WAS HELD AT CIA'S HEADQUARTERS AT LANGLEY, VA., ACCROSS THE POTOMAC RIVER FROM WASHINGTON, IN THE SAME SEVENTH FLOOR ROOM WHERE THE TOP SECRET U.S. INTELLIGENCE BOARD (USIB) MEETS ONCE A WEEK TO DISCUSS THE WORK OF ALL U.S. INTELLIGENCE AGENCIES.

USIB IS HEADED BY JOHN A. MCCONE, THE DIRECTOR OF CENTRAL INTELLIGENCE. IT INCLUDES OFFICIALS FROM THE ARMY, NAVY, AIR FORCE, THE DEFENSE INTELLIGENCE AGENCY, THE NATIONAL SECURITY AGENCY, THE ATOMIC ENERGY COMMISSION AND THE FBI.

BUT IT WAS CLEAR TO NEWSMEN THAT MOST OF CIA'S WORK IS STILL CLOSELY GUARDED. REPORTERS WERE ESCORTED THROUGH THE BUILDING TO AND FROM THE CONFERENCE ROOM BY SPECIAL USHERS SO THEY COULD NOT WANDER ABOUT. ONE NEWSMAN WAS GIVEN AN ESCORT TO THE MEN'S LAVATORY.

DURING THE NEWS CONFERENCE THERE WAS AN UNMISTAKABLE CLAMMING UP WHEN QUESTIONS RANGED BEYOND THE SUBJECT AUTHORIZED.

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Soviet Economic Growth Down Sharply, CIA Says

By Stephen S. Rosenfeld
Staff Reporter

The Administration moved on two fronts yesterday to deflate Soviet claims of superior economic growth.

The Central Intelligence Agency broke a long standing policy of official silence to hold a press conference at its Virginia headquarters for all interested American reporters.

George W. Ball, Under Secretary of State, followed with an evening speech to the National Retail Merchants Association in New York.

Both said the Soviet rate of growth fell from 6 per cent and higher to less than 2.5 per cent in 1962 and 1963. The comparative American figures, said the CIA, were 6 per cent in 1962 and an estimated 3.7 per cent in 1963.

Lead Increasing

The debunking purpose of CIA's unusual public report was apparent in a press release. It referred to Moscow's "boasts of overtaking and surpassing U.S. production by

1970" and it said its review "supports just the opposite conclusion — namely, that the Soviet Union is falling behind in the economic race."

Ball said that "in the past 12 years, the excess of our gross product over that of Soviet Russia has risen from \$245 billion to \$290 billion."

He went on to say that even if the U.S.S.R. were to double its output in the next decade — which it cannot do — production in 1972 would still be less than ours in 1962.

The CIA included in its analysis an implicit plea for support of the Administration's policy against granting long term credits to the Soviets. It suggested that such credits would allow Russia to break out of the economic predicament in which the CIA believes it is caught.

Material Leaked

This pitch has disturbed some State Department officials on grounds that the CIA should stick to collecting intelligence, not promoting policies. But Under Secretary

Ball did not mention credits in his New York speech.

The material which the CIA presented, and which Ball drew from, has been available in Government circles for a number of months. Some of it surfaced obliquely in a speech by Walt W. Rostow, the State Department's top policy planner, last fall and all of it was leaked to several reporters earlier this week.

According to one version, the CIA material was released at the behest of CIA Director John A. McCone and with the approval of President Johnson.

The CIA's briefer said yesterday that "practically all" of its material was "from the expertise of analysts, rather than secret or clandestine information." Asked about the surprise with which some private economists greeted its low estimates, the briefer said the CIA has "more information" and the "best techniques" of analysis and that "only we" make current estimates of the Soviet gross product.

Agriculture Vital

Agriculture failures were identified as the "single most important factor" cutting the over-all Soviet growth rate in 1962 and 1963. With better farm weather, Moscow "may be able to recover somewhat," said the CIA.

But, the agency said, industrial growth rates in those years slowed from 9 to 7 per cent and in the key forward-looking category of capital investment, the drop was from 12-15 per cent to 4-5 per cent.

Hence the prospects for regaining and sustaining the high growth rates of the 1950s are "not very bright," the CIA said.

The CIA presented the Kremlin's problem as one of how to find resources for its various needs. After taking some investment funds from growth and from low priority civilian sectors, it said, Russia faces a gold shortage which means that "increased credits represent the only promising means" to finance the necessary machinery imports.

Called Ideological

Hence the CIA feels that a western cramp on credits will remove the Soviet Union's easy way out of its bind. The agency's briefer said the Russians may consider imports of chemical goods (particularly for the farms) so urgent that if credits are not attractive they might even siphon funds away from defense. He hastened to add that there are no signs of this so far.

In New York, Ball had a different slant on the Soviet squeeze. He agreed with the CIA that Russia is now at the point where it has largely exhausted the short cuts of imported technology and inherited capital.

But, ignoring the question of resource allocation, he said the Soviet dilemma was ideological: "Can a complex modern economy be effectively operated under the restraining hand of Communist doctrine?"

The Soviets have to choose between moving toward some kind of market economy or imposing more elaborate controls, Ball said. The CIA analysis ignored this question.

CIA Sees Soviet Bid for 2 Billion Credit

BY PHILIP DODD

[Chicago Tribune Press Service]

Washington, Jan. 9—The central intelligence agency staged an unprecedented press briefing today to warn the western world that Russia may have to ask for credit to buy 2 billion dollars worth of equipment for its chemical industry.

The top secret agency welcomed a group of reporters into its well-guarded headquarters five miles outside of Washington in a wooded area on the Virginia side of the Potomac river.

The CIA's aversion to publicity has been so great that there are no road signs to guide an inquisitive public to its building.

Finds Economy Slipping

The gist of the CIA briefing, given by a battery of economists on the agency's payroll, was that the Soviet Union's economy is slipping.

The information had been leaking out of the agency for several days. Today's briefing, held with the approval of President Johnson, was called to give general distribution to the data on which the appraisal of the Russian economy was based.

The briefing was held in a double-doored room, its windows covered by thick drapes. It is the scene of the weekly meeting of the United States intelligence board, made up of the intelligence chiefs of the CIA, defense department, military services, state department and atomic energy commission.

Want World to Know

CIA officials said their agency and President Johnson believed the true picture of the Soviet economy is fundamental to the foreign policy of the

United States and other countries and should be made known to the world.

Here were the principal points made at the CIA briefing:

The Soviet Union's annual economic growth, which was believed to average 8 per cent a year between 1950 and 1959, dropped to 2.5 per cent in 1962 and 1963. The American rate was estimated to be 3.7 per cent last year.

Gold Reserves Drop

Soviet gold reserves have dropped to 2 billion dollars, from 3 billion dollars in 1956. Moscow has had to turn into them to buy wheat from abroad to the extent of 400 or 500 million dollars in recent months.

Disastrous crop failures in 1963 added to the woes of the Soviet economy. To increase farm productivity, Premier Nikita S. Khrushchev has launched a crash program to build up his chemical industry and provide fertilizer for farmlands.

CIA officials predicted the Soviet economy could not finance foreign purchases for the chemical industry buildup on the usual 5-year purchase plan. This meant, they said, Moscow would have to ask for extended credit or further drain its gold reserves.

Called Too Ambitious

The officials acknowledged that the first years of Khrushchev's leadership were marked by a series of successes in industrial growth and agricultural production.

But Khrushchev's programs, they said, were "too ambitious for available resources." The headlong rush to develop heavy industry, they said, resulted in a neglect of agriculture.

"In summary," reporters were told, "the Kremlin leadership for several years has been trying to do too much with too few resources. This living on borrowed capital, improvising cheap but temporary solutions to basic problems, such as agriculture, and chronically neglecting balanced development to push ahead spectacularly on a narrow range of goals has finally caught up with the Soviet Union."

"A nearly disastrous crop failure in 1963 was not the root cause of Moscow's economic difficulties. What it did was to bring to a head the many underlying problems of the Soviet economy and force a reconsideration of the pattern of resource allocation."

C.I.A. DROPS CLOAK AND MEETS PRESS

Experts Brief 20 Reporters on Lag in Soviet Growth and Decline in Gold

By MAX FRANKEL

Special to The New York Times

WASHINGTON, Jan. 9

The Central Intelligence Agency held a news conference today.

The subject was the state of the Soviet economy, but the C.I.A. findings about that had already been leaked to the press. The event today was news because the agency, which only a few years ago was reluctant to list its telephone numbers, has decided to show as much of itself as possible to the public and the Congress.

Long bothered by the widespread criticism of some of its failures and never able to boast of its cloak-and-dagger triumphs, the agency has found something to advertise — its analytical brains. In Mr. Johnson it has found a President who does not mind.

State Department Chagrined

The State Department minds a great deal. Its officials were chagrined by the C.I.A.'s distribution of intelligence estimates and by the news conference, partly because they themselves wish to control the flow of information affecting foreign relations, partly because they question the wisdom of the C.I.A.'s becoming publicly committed to intelligence findings.

But a spokesman of the agency, describing the news conference as an experiment, said "Why not?" Every once in a while, he said, the agency comes by a significant story that, though gathered partly by clandestine means, need not be hidden in secret drawers. Applying the rule of reason, he said, there seemed nothing wrong with publicizing the material for attribution to the agency.

The spokesman said the intelligence analysts lived in "one side of the house" that could and ought to be talked about. The other side of the C.I.A.'s \$46-million headquarters eight miles from Washington, in McLean, Va., is the one that manages the nation's most secret operations around the world, including espionage.

About 20 newsmen were invited to the massive but unmarked headquarters this afternoon and shown to the Central Intelligence board conference room.

They were introduced to leading analysts of Soviet affairs, but were asked not to use the analysts' names in transmitting the agency's startling conclusions.

Sharp Decline Reported

There were that the once impressive 6 per cent annual economic growth rate of the Soviet Union had slipped to 2.5 per cent in the last two years, that Soviet gold reserves had fallen to \$2 billion, that Moscow would have to borrow heavily in the West to finance industrial expansion and that the Soviet Union was falling behind rather than catching up with the United States.

Disturbed though they were by the C.I.A.'s distribution of this material, officials at the State Department and elsewhere in the Government do not dispute the findings.

They said Soviet experts at universities and in other countries who have challenged the agency's conclusions "are simply behind the times."

Study Was Requested

In fact, the study disclosed by the C.I.A. was said to have been requested some time ago by the State Department for a public education program. The department wished to erase the worldwide image of constant economic progress by the Soviet system and to strengthen its argument that the extension of long-term credits to Moscow by Western nations could help Premier Khrushchev through a serious economic crisis without forcing him to divert resources from military budgets.

Under Secretary of State George W. Ball used most of the same material for a speech in New York this evening. The C.I.A.'s wish to claim the credit for the analysis may be another reason for its first venture into open publicity.

The Administration hopes to persuade the Western allies to extend only short-term credits to the Russians so that they will be forced to choose between a diversion of funds from military projects and continued low-growth rates. Its current tactic is to make this decision easier for Moscow by stressing Washington's interest in matching military budget cuts and thus limiting the arms race.

Soviet Arms Cut Urged

President Johnson called on Premier Khrushchev yesterday to follow his example in curtailing the production of fissionable materials for nuclear weapons. Mr. Khrushchev himself has shown some interest in a "policy of mutual example"—that is, arms control without formal agreement.

The discussion of the significance of the latest analyses of the Soviet economy was overshadowed here this evening, however, by puzzlement over the methods of making them public. The C.I.A. obtained approval for the news conference from President Johnson because, it said, he shared the agency's belief that the true picture of the Soviet economy was fundamental to the foreign policies of this country and other non-Communist nations.

The C.I.A. estimated that Premier Khrushchev's program to expand Soviet chemical industries would force him to import machinery and equipment from the West at a cost of several hundred million dollars a year—possibly as much as \$2 billion for the seven-year program.

Credits Believed Vital

Because of the dwindling Soviet gold reserves, the agency's analysts said, the Russians are almost certain to require long-term credits. The United States argument to its allies has been that the extension of such credits would give the Russians a relatively easy way to support budgets for both guns and butter.

The high costs of defense and space programs plus the serious failure of Soviet agriculture account for the Soviet slump, the C.I.A. said. On a per capita basis, the analysts calculated that agricultural production in 1963 was 10 per cent below that of 1958. Total farm output declined 4 per cent in 1962 and probably more than 4 per cent last year, they said.

The C.I.A.'s distribution of intelligence information is not entirely without precedent. The agency's former director, Allen W. Dulles, made occasional speeches about his staff's findings, including several about the success in past years of the Soviet economy. Presumably, his use of the material was coordinated with his brother, the late John Foster Dulles, who was then Secretary of State.

The agency also has been willing from time to time to brief individual correspondents. Its analysts, often drawn from the nation's campuses, have spoken as freely as their counterparts in the State and Defense Departments, but they never permitted the information to be labeled as the findings of the C.I.A.

In recent months, the agency's director, John A. McCone, and his aides have complained about the poor press notices of the C.I.A. The emphasis, they noted, seemed always to be on notable failures, such as the loss of a U-2 in the Soviet Union in 1960, the unsuccessful invasion of Cuba in 1961 and, to some extent, embarrassing policy disputes in South Vietnam last year.

British Divided on Issue

Special to The New York Times

LONDON, Jan. 9 — British experts on Soviet affairs were inclined today to look upon the Central Intelligence Agency's estimate of a sharp decline in the Soviet economic growth rate as "just another document" that must be evaluated with the rest.

"One must consider the source," said the head of research of one of Britain's biggest banks. "I would say their estimates are on the low side."

A bullion concern challenged the C.I.A.'s estimate that Soviet gold reserves had fallen below \$2 billion and that gold output in the Soviet Union was \$150 million annually.

A partner in the bullion concern asked:

"If production is so low, where did all the gold come from for postwar sales to the West? Were the Russians supposed to have increased their reserves by so much during the war?"

"No one really knows anything," another authority said. "It's all a big guessing game."

One bank's experts thought the Central Intelligence Agency had done a "very good job." But they expressed the opinion that the C.I.A.'s estimate of Soviet economic growth and gross national product were a little on the high side.

There was no official British reaction to the report, which was summarized today in several London newspapers and in international editions of New York newspapers.

The Guardian's Soviet affairs expert saw the C.I.A.'s information as eliminating an "economic-growth gap" in much the same way that the "missile gap" was eliminated several years ago.

In the "missile gap," the United States thought the Soviet Union was ahead in missile production. Later information led to a reversed picture: that the United States was leading. Now, according to The Guardian's analyst, estimates of Soviet economic growth have been reversed to show that the United States growth rate is greater than that of the Soviet Union.

Studies on the Soviet Union are not so extensive or exhaustive in Britain as in the United States, but they do compromise, as in the United States, a wide diversity of opinion.

A top-level group of businessmen who visited the Soviet Union for 11 days last May to evaluate trade prospects, returned to Britain with the conclusion that the Soviet economy and standard of living were "developing rapidly."

In October, another delegation of British businessmen toured the Soviet Union. They reported that they had been "impressed by the tremendous effort which is being put into research and development."

However, specialists here had noted a slowdown in Soviet economic growth.

Apart from the Soviet Union agricultural troubles, the experts cite a lag in cellulose production, a shortage of abrasive materials for engineering and other industries, a failure to reach production goals for sulphuric acid and, most important, a general crisis in the chemical industry.

All of these factors, the experts say, add up to something less than "rapid development."

Nevertheless, the view of experts here was that, although the Soviet growth rate was lagging, it was still ahead of that of the United States. Now this proposition must be restudied.

JAN 10 1964

CIA BARES REDS' CASH DISTRESS

***Need \$2 Billion U. S.
Credit***

Continued

JAN 10 1964

Approved For Release 2002/11/08 : CIA-RDP80B01676R001500050004-9

CIA: Soviet Going To Pot and Can't Buy Its Way Out

Washington, Jan. 9 (UPI)—The supersecret Central Intelligence Agency broke its security silence today to reveal the ramshackle state of the Soviet economy and report that Russia will need millions of dollars worth of Western machinery and equipment to repair its lagging farm and industrial output.

Moscow will require \$2 billion worth of machinery from the West just to build its much-heralded chemical-fertilizer industry, the CIA said, adding that the Soviets probably have to ask for credit as the purchases would strain the country's gold reserves.

At an unprecedented news conference, officials of the traditionally silent intelligence agency said the Soviet Union has been "living on borrowed capital," improvising temporary solutions to its farm problem, and chronically neglecting balanced development.

These practices have "finally caught up with the Soviet Union," the official said, and a "nearly disastrous" crop failure in 1963, on top of it all, has confronted the Kremlin with the need of reconsidering its "pattern of resource allocation."

Major Problems

Officials said the news briefing was held because the CIA and President Johnson believe the true picture of the present state of the Soviet economy is funda-



Premier Khrushchev

mental to the foreign policy of both this country and the entire free world.

The agency gave this picture of the problems facing the Kremlin:

Russia's annual economic growth, which is believed to have been more than 6% of the gross national product between 1950 and 1959, has been running at only 2 1/2% for the past two years. The U.S. rate was 3.7% last year.

In 1956, Soviet gold reserves stood at \$3 billion. They are now down to \$2 billion. Russia dipped into these reserves to the extent of \$400 million or \$500 million in 1963 to purchase wheat from abroad.

CIA officials estimated that Premier Khrushchev's big program to expand Soviet chemical and fertilizer industries will require machinery and equipment imports from the free world of more than several hundred million dollars a year—possibly as much as \$2 billion for the seven-year program.

Will Need Credit

Because of his dwindling gold reserves, Khrushchev is likely to turn to the west for credits and long terms, the CIA said.

The U.S. has been trying to persuade its European allies to hold these credits to five years to avoid giving the Soviet Economy an easy out.

JAN 10 1964

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CIA SEES SOVIET ECONOMIC CRISIS

Agency Says Reds Face Dilemma On Programs

Washington, Jan. 9 (AP)—A CIA spokesman said today Russia is in such deep economic trouble that Premier Khrushchev must pare other programs to meet his expansion goals if he cannot get long-term credit from the West.

The picture of the Soviet economic situation, as put together by Central Intelligence Agency analysts, was given to reporters at what was described as the first general news briefing of this kind since the normally secret intelligence unit was set up after World War II.

A CIA spokesman said the briefing was an experiment in making public CIA material from which the secrecy label could be safely stripped, in order to make the information generally known. It was understood that President Johnson approved the action.

One of the statements by the CIA spokesman was that Russia's import requirements for chemical machinery and equipment would top several hundred million dol-

lars a year "and could be \$2,000,000,000 in total."

It is possible that further CIA analyses will be issued in the future, the spokesman said. He denied that the CIA's purpose was to influence policy, saying the newsmen were being given facts—not recommendations.

The United States has been trying to convince other Western nations not to extend long-term credit to Russia. But some of the allies, particularly Britain, have declined to go along with Washington on this.

Speculation On Causes

According to the CIA spokesman, the Kremlin is in an economic fix because of a combination of over-ambitious economic programs and a near disaster in agricultural production.

Khrushchev, at last month's budget meetings at the Kremlin, unveiled plans for a giant boost in chemical and fertilizer output to overcome basic economic difficulties. He indicated Russia would seek long-term credits from the West to import machinery for the proposed chemical industry build-up.

The CIA spokesman said that

if the Kremlin does not get credit from the West, it would have to siphon off resources from elsewhere in the Soviet economy to achieve its goals—including perhaps reducing military expenditures.

Too Much With Too Little

He said that Russia's gold reserves have slumped to less than \$2,000,000,000, and the Russians do not want to reduce this "minimal" reserve.

Saying that the Soviet gold outflow has been stepped up by Russian purchases of nearly 10,000,000 tons of grain from non-Communist countries over the last year, the CIA spokesman concluded that "the Kremlin leadership, for several years, has been trying to do too much with too few resources."

And, rating Russia's economic growth at only 2.5 per cent in 1963, compared with United States growth half again as large, he declared Khrushchev will be unable to make good on his former boast that Russia will be matching the United States in production by 1970.

JAN 10 1964

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RUSSIA NEEDS WESTERN CREDITS to shore up its economy, the CIA said.

The U.S. Central Intelligence Agency, in the first news briefing it has given since it was set up after World War II, said Russia's economic situation is so bad that unless the Soviet gets long-term credits from the West, Premier Khrushchev will have to pare a number of programs to meet his economic goals. The CIA said Russia will have to buy \$2 billion of machinery and equipment from the West to build up its chemical-fertilizer industry, but added that such purchases would strain Moscow's gold reserves.

The CIA said the Russian people have reached the "unsqueezable" point as far as their standard of living is concerned, and that Russia for some time has been improvising temporary solutions to its farm problem.

ASSOCIATED PRESS

JANUARY 10, 1964

A 32 WK

(600) PMS BUDGET

CIA-SOVIET

BY LEWIS GULICK

ASSOCIATED PRESS WRITER

WASHINGTON, JAN. 10 (AP)--THE CENTRAL INTELLIGENCE AGENCY SAYS THE KREMLIN WANTS TO BUY LARGE AMOUNTS OF WESTERN CHEMICAL MACHINERY ON LONG-TERM CREDIT SO AS NOT TO HAMPER SOVIET ARMS PRODUCTION.

CIA'S CONCLUSIONS ABOUT RUSSIA'S ECONOMIC WOES WERE ISSUED YESTERDAY IN CIA'S FIRST GENERAL PRESS BRIEFING SINCE THE SECRET AGENCY WAS SET UP AFTER WORLD WAR II.

THE UNITED STATES HAS BEEN TRYING TO PERSUADE ITS ALLIES, SO FAR UNSUCCESSFULLY, TO BAR LONG TERM CREDIT ON RED PURCHASES. BUT A CIA SPOKESMAN DENIED TRYING TO INFLUENCE POLICY BY AIRING THE AGENCY'S VIEWS PUBLICLY.

HE SAID CIA IS AIMING TO MAKE PUBLIC INFORMATION GATHERED BY ITS EXPERTS ON A SUBJECT WHERE THE CUSTOMARY SECRECY LABEL COULD BE REMOVED WITHOUT HARM, AND THAT CIA MAY GIVE OUT FURTHER DATA LATER. IT WAS UNDERSTOOD PRESIDENT JOHNSON APPROVED THE ACTION.

ACCORDING TO CIA'S ANALYSIS, THE SOVIET ECONOMY HAS RUN INTO SUCH DEEP TROUBLE THAT PREMIER KHRUSHCHEV CAN ACHIEVE HIS CHEMICAL INDUSTRY EXPANSION GOALS ONLY BY PARING OTHER PROGRAMS OR THROUGH LONG TERM CREDITS FROM THE WEST.

SOVIET IMPORT REQUIREMENTS FOR WESTERN CHEMICAL MACHINERY AND EQUIPMENT, MAINLY TO PRODUCE FERTILIZERS, WERE ESTIMATED AT \$2 BILLION OVER THE NEXT FEW YEARS. CREDITS FROM THE INDUSTRIAL WEST TOTALED \$600 MILLION IN 1962-63. KHRUSHCHEV'S SEVEN-YEAR CHEMICAL INDUSTRY EXPANSION PLAN CALLS FOR A \$46 BILLION INVESTMENT OVER-ALL.

NOTING KHRUSHCHEV'S CALL LAST MONTH FOR WESTERN CREDITS, THE CIA SAID "THE CURRENT SOVIET PUSH FOR NEW FOREIGN CREDITS AND EXTENDED REPAYMENT TERMS IS DIRECTLY RELATED TO MOSCOW'S DESIRE TO PREVENT THE CHEMICAL PROGRAM FOR IMPINGING TOO DIRECTLY ON THE PRODUCTION OF MILITARY END ITEMS."

A CIA SPOKESMAN MADE THESE POINTS:

CONTRARY TO KHRUSHCHEV'S OLD BOAST THAT RUSSIA WOULD CATCH UP WITH THE UNITED STATES IN PRODUCTION BY 1970, THE SOVIETS ARE FALLING BEHIND IN THE ECONOMIC RACE. RUSSIA'S ECONOMIC GROWTH RATE WAS ONLY 2.5 PER CENT LAST YEAR, COMPARED WITH 3.7 PER CENT FOR THE UNITED STATES. AT \$260 BILLION, HER GROSS NATIONAL PRODUCT--TOTAL PRODUCTION OF GOODS AND SERVICES--IS LESS THAN ONE-HALF THE UNITED STATES.

- 2 -

SOVIET ECONOMIC PROBLEMS STEM FROM TOO AMBITIOUS PROGRAMS, INCLUDING MILITARY-SPACE SPENDING NEARLY THE SIZE OF THE UNITED STATES, PLUS NEAR-DISASTER IN RUSSIAN FARM OUTPUT.

THE CHEMICAL EXPANSION PROGRAM IS AIMED AT SOLVING THE FARM PROBLEM. KHRUSHCHEV APPARENTLY RECOGNIZES THAT THIS WILL REQUIRE TAKING SOME RESOURCES FROM OTHER PROGRAMS, SUCH AS HEALTH AND HOUSING, PLUS IMPORTS.

DESPITE MOSCOW'S ANNOUNCEMENT LAST MONTH OF A \$660 MILLION CUT IN THE SOVIET MILITARY BUDGET, CIA HAS NO HARD EVIDENCE OF AN ACTUAL REDUCTION IN THE ARMS OUTLAY.

THE CIA SPOKESMAN SAID RUSSIA'S GOLD RESERVES HAVE DROPPED BELOW \$2 BILLION, A MINIMAL FIGURE, WITH GRAIN PURCHASES FROM THE WEST COSTING HEAVILY.

UNITED PRESS
INTERNATIONAL

JANUARY 10, 1964

UPI A2

DAY LEAD CIA BY DONALD MAY UNITED PRESS INTERNATIONAL

WASHINGTON, JAN. 10 (UPI)--THE U. S. CENTRAL INTELLIGENCE AGENCY HAS EMERGED FROM ITS CLOAK OF SECRECY AND STUCK A DAGGER IN THE KREMLIN-MADE IMAGE OF THE SOVIET ECONOMY.

IN AN UNPRECEDENTED NEWS CONFERENCE THE AGENCY, WHICH TRADITIONALLY NEVER TALKS, TOLD REPORTERS YESTERDAY THAT RUSSIA IS "FALLING BEHIND IN THE ECONOMIC RACE" AND NEEDS \$2 BILLION WORTH OF MACHINERY AND EQUIPMENT FROM THE WEST TO BUILD PROMISED NEW INDUSTRIES.

RUSSIA'S ANNUAL ECONOMIC GROWTH, CIA SAID, WAS 2 1/2 PER CENT IN BOTH 1962 AND 1963, COMPARED WITH 6 PER CENT A YEAR IN THE 1950'S AND WITH THE U.S. RATE LAST YEAR OF 3.7 PER CENT. RUSSIA SAYS ITS "NATIONAL INCOME," A SIMILAR GROWTH MEASUREMENT, ROSE 6 PER CENT IN 1962.

THE SOVIET AGRICULTURAL OUTPUT, CIA SAID, DROPPED 4 PER CENT IN 1962 AND PROBABLY MORE THAN THAT IN 1963; THE RATE OF EXPANSION OF FIXED INVESTMENT, ON WHICH GROWTH DEPENDS, HAS BEEN CUT IN HALF; AND RUSSIAN GOLD RESERVES HAVE DWINDLED FROM \$3 BILLION IN 1956 TO UNDER \$2 BILLION.

SOVIET PREMIER NIKITA KHRUSHCHEV ANNOUNCED ON DEC. 9 A MAJOR NEW PROGRAM TO EXPAND RUSSIA'S CHEMICAL AND FERTILIZER INDUSTRIES. CIA ESTIMATED THIS WOULD REQUIRE IMPORTS OF MACHINERY AND EQUIPMENT FROM THE FREE WORLD OF "SEVERAL HUNDRED MILLION DOLLARS A YEAR," PERHAPS \$2 BILLION FOR THE SEVEN-YEAR PROGRAM.

AND BECAUSE OF THE LOWERED GOLD RESERVES, THE U.S. AGENCY SAID, RUSSIA HAS BEEN ANGLING FOR MORE CREDITS AND LONGER REPAYMENT TERMS FROM THE WEST. THE UNITED STATES HAS BEEN TRYING TO PERSUADE ITS ALLIES TO HOLD THESE CREDITS TO FIVE YEARS REPAYMENT TIME. ON TOP OF IT ALL, CIA OFFICIALS SAID, RUSSIA'S FOREIGN AID COSTS ARE GOING UP BECAUSE OF INCREASED DRAWINGS ON COMMITMENTS MADE IN PAST YEARS.

THE BASIC CAUSE OF THE ECONOMIC PROBLEMS, THE AGENCY SAID, IS THAT RUSSIA HAS BEEN OPERATING PROGRAMS "TOO AMBITIOUS" FOR AVAILABLE RESOURCES. IN 1962 RUSSIA'S GROSS NATIONAL PRODUCT--THE SIZE OF ITS ECONOMY--WAS \$260 BILLION, OR 47 PER CENT THAT OF THE UNITED STATES.

YET RUSSIA HAS INVESTED IN NEW PLANTS AND EQUIPMENT NEARLY AS MUCH AS THE UNITED STATES AND HAS MAINTAINED MILITARY AND SPACE PROGRAMS NEARLY AS COSTLY AS THIS COUNTRY'S. KHRUSHCHEV, OFFICIALS SAID, HAS BEEN "LIVING ON BORROWED CAPITAL," IMPROVISING TEMPORARY SOLUTIONS AND NEGLECTING ECONOMIC BALANCE.

- 2 -

CIA OFFICIALS SAID A "NEARLY DISASTROUS" SOVIET CROP FAILURE IN 1963 HAS BROUGHT MATTERS TO A HEAD AND LEFT KHRUSHCHEV WITH A MAJOR PROBLEM IN ALLOCATION OF RESOURCES.

IF HE CAN'T GET CREDIT, WHERE WILL THE MONEY FOR CHEMICAL EXPANSION COME FROM? OFFICIALS CONSIDER RUSSIA IS STILL BEHIND THE UNITED STATES IN MILITARY DEVELOPMENT. THEY BELIEVE THE LIVING STANDARD OF THE SOVIET PEOPLE IS ALREADY "UNSQUEEZABLE."

THE AVERAGE RUSSIAN'S DIET IS 70 PER CENT GRAIN AND POTATOES. THERE IS RECENT EVIDENCE OF DISAPPEARANCE OF FLOUR FROM STORES, DISTRESS SLAUGHTERING OF LIVESTOCK AND ELIMINATION OF FREE BREAD FROM FACTORY CAFETERIAS.

WHY DID CIA SUDDENLY BREAK ITS TRADITION OF SILENCE? CIA'S NEW INFORMATION MAN, PAUL M. CHRETIEN, SAID A NUMBER OF OFFICIALS INCLUDING PRESIDENT JOHNSON FELT THE INFORMATION ON THE SOVIET ECONOMY WAS BASIC TO ISSUES OF FOREIGN POLICY IN THE UNITED STATES AND ALL THE FREE WORLD.

OFFICIALS ALSO EXPLAINED THAT THOUGH THE INFORMATION CAME TO SOME EXTENT FROM SECRET INTELLIGENCE, MOST OF IT WAS SIMPLY ECONOMIC ANALYSIS, SEPARABLE FROM CIA'S COVERT WORK.

THE BRIEFING, FOR SOME 20 NEWSMEN, WAS HELD AT CIA'S LANGLEY, VA., HEADQUARTERS, IN THE SAME SEVENTH FLOOR ROOM WHERE THE U. S. INTELLIGENCE BOARD, MADE UP OF ALL INTELLIGENCE AGENCIES, MEETS ONCE A WEEK IN TOP SECRECY.

REPORTERS WERE ISSUED VISITORS BADGES AND ESCORTED TO AND FROM THE CONFERENCE ROOM BY SPECIAL USHERS WHO GAVE THEM NO OPPORTUNITY TO WANDER IN THE CORRIDORS.

RPL28AES

UNITED PRESS
INTERNATIONAL

JANUARY 10, 1964

UPI-15

(RED ECONOMY)

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